

SECTION XII--INTERPRETATIONS

ACCOUNTING INTERPRETATION NO. 11

Subject: Accounting for and Reporting Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave and sabbatical leave. The standards for recording and reporting come from the Governmental Accounting Standards Board (GASB) Statement No. 16.

The compensated absences liability should be calculated based on the pay or salary rates in effect at the balance sheet dates or as agreed upon based on contract, regulation or policy.

In addition, amounts should be accrued as a liability for salary-related payments associated with the payment of compensated absences, such as social security, using the rates in effect at the balance sheet date. The accrual should be made based on the entire liability for each type of compensated absence to which the salary-related payments apply.

Vacation Leave:

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:

- (a) The employees' rights to receive compensation are attributable to services already rendered.
- (b) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An employer usually would accrue a liability for vacation leave and other compensated absences with similar characteristics that were earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Benefits that have been earned but that are expected to lapse and thus not result in compensation to employees should not be accrued as a liability.

Sick Leave:

A liability for sick leave and other compensated absences with similar characteristics should be accrued using one of the following termination approaches:

- (a) A liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees termination or retirement. Accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than taken as absences due to illness or other contingencies and would generally be an estimate.

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- (b) Alternatively, a governmental entity should estimate its accrued leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible or are expected to be eligible to receive termination payments.

Sabbatical Leave:

The accounting for sabbatical leave depends on whether the compensation during the sabbatical is for service during the period of the leave or instead for past service. A liability should be accrued during the period the employees earn the right to the leave if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Compensated Absences in Governmental Funds:

If the conditions above are met, the amount of compensated absences recorded as expenditures in governmental funds shall be the amount accrued during the year that would normally be liquidated with available expendable financial resources.

Because governmental fund balance sheets do not reflect long-term liabilities, only the current portion of the entire liability should be reported in the specific fund. The current portion is the amount left unpaid at the end of the reporting period that would normally be liquidated with available expendable resources. The remainder of the liability should be reported in the General Long-Term Liability Accounts.

Compensated Absences in Proprietary Funds:

If the conditions above are met, a fund liability should be recorded for the entire liability. The amount to be expensed during the year should be the amount of leave earned during the year.

The portion of expenditures in governmental funds and/or expenses in proprietary funds to be recorded for the year as salaries and wages which are attributable to compensated absences should be adjusted for leave taken which was available from prior years' employee leave earnings, and prior period fund balances in governmental funds and retained earnings balances in proprietary funds should be adjusted to reflect the reporting principles used in the current year.

In summarization, the following steps need to be executed to record compensated absences:

- (1) The leave policies must be reviewed to determine if the conditions above are all met.
- (2) If a liability exists for compensated absences, the liability must be inventoried at the end of each accounting period, in hours by employee by fund.
- (3) The amount of the liability must be determined by multiplying the hours of accumulated unused leave by each employee's current hourly salary.

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- (4) A determination must be made relative to in which funds and functions the liability is applicable (i.e., governmental funds or proprietary funds).

- (5) For liabilities applicable to governmental funds:

- (i) The portion of the liability which is current must be calculated and recorded in the proper fund as follows:

Compensated Absence Salary	
Expenditure	xx
Accrued Wages Payable	xx

- (ii) The balance of the liability should be reported in the General Long-Term Liability Accounts as follows:

Amount to be provided for	
payment of Long-Term Liabilities	xx
Other Long-Term Liabilities Payable	xx

- (6) For liabilities applicable to proprietary funds the liability should be recorded as follows:

Compensated Absence Salary Expense	xx
Accrued Wages Payable	xx

- (7) The total salary expenditures or expenses, as appropriate, must be adjusted for leave taken which was earned in previous periods by debiting Fund Balance/Retained Earnings and crediting Expenditures/Expenses in the proper amount.